

# Washington State Economic Outlook & Revenue Collection Experience

Presented to  
Independent Insurance Agents

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Executive Director

February 13, 2014  
Olympia, Washington



**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**

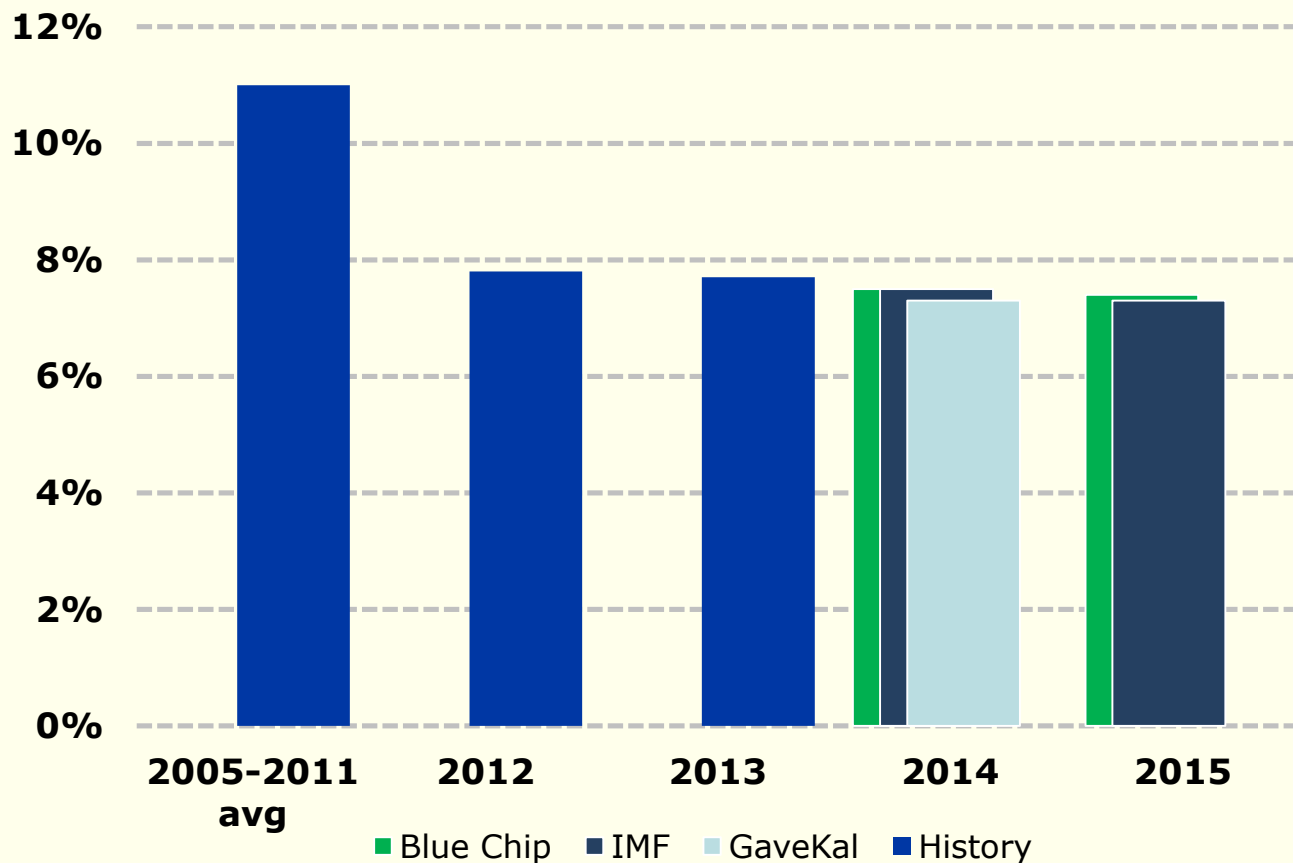


# Summary

- The economic forecast is quite similar to November, with slightly stronger GDP growth in 2014 & 2015
- Recent data indicate that state employment is higher than expected in November
- Risks to the baseline are the same as in November: the potential for slower Chinese economic growth, uncertain fiscal policy and possible disruptions to the housing recovery
- Adjusted revenue collections since the November forecast are \$0.9 million (0.0%) above expectations
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government

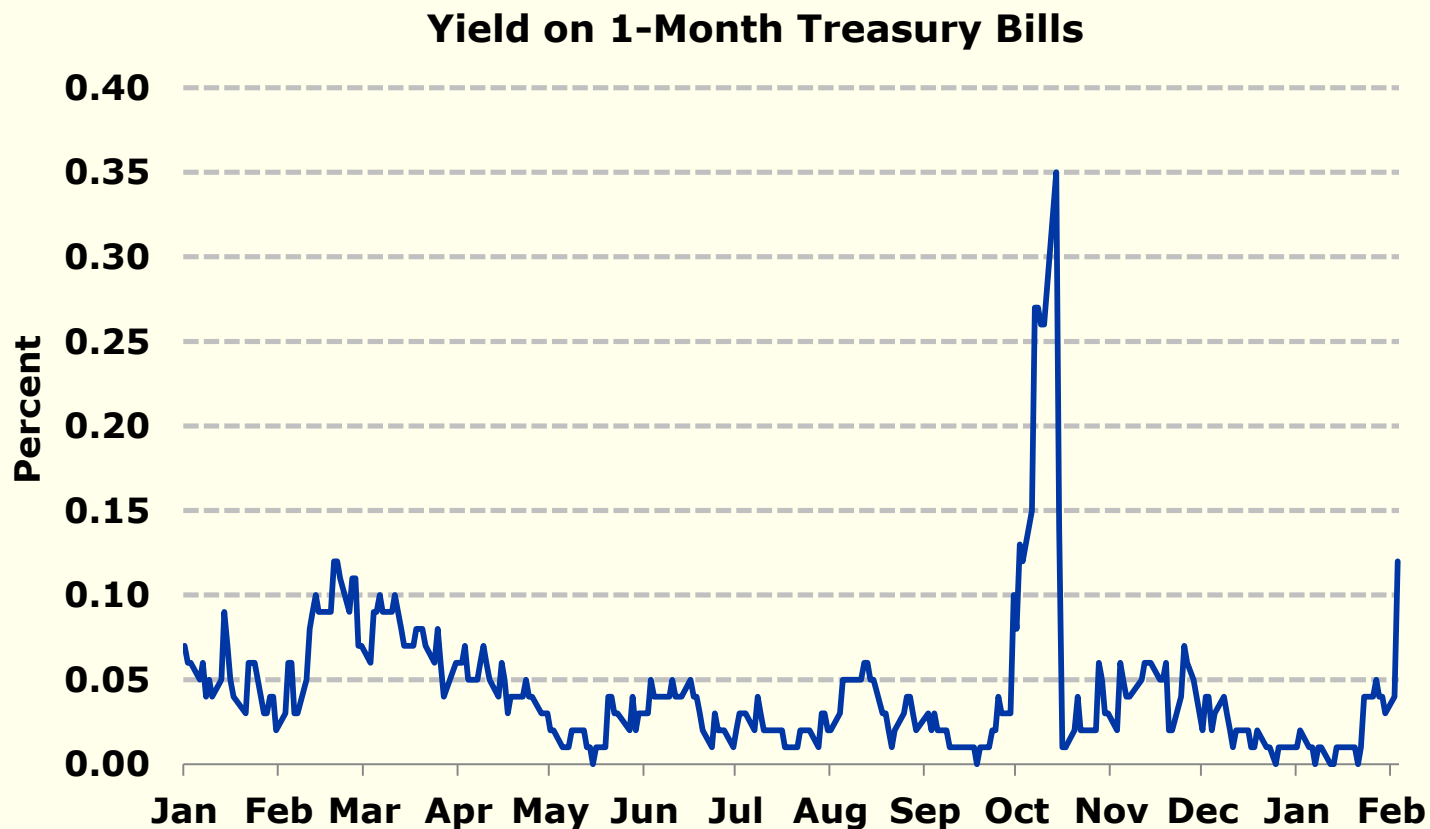


# China's 2014 & 2015 GDP growth expected to be at or below 2013 rates



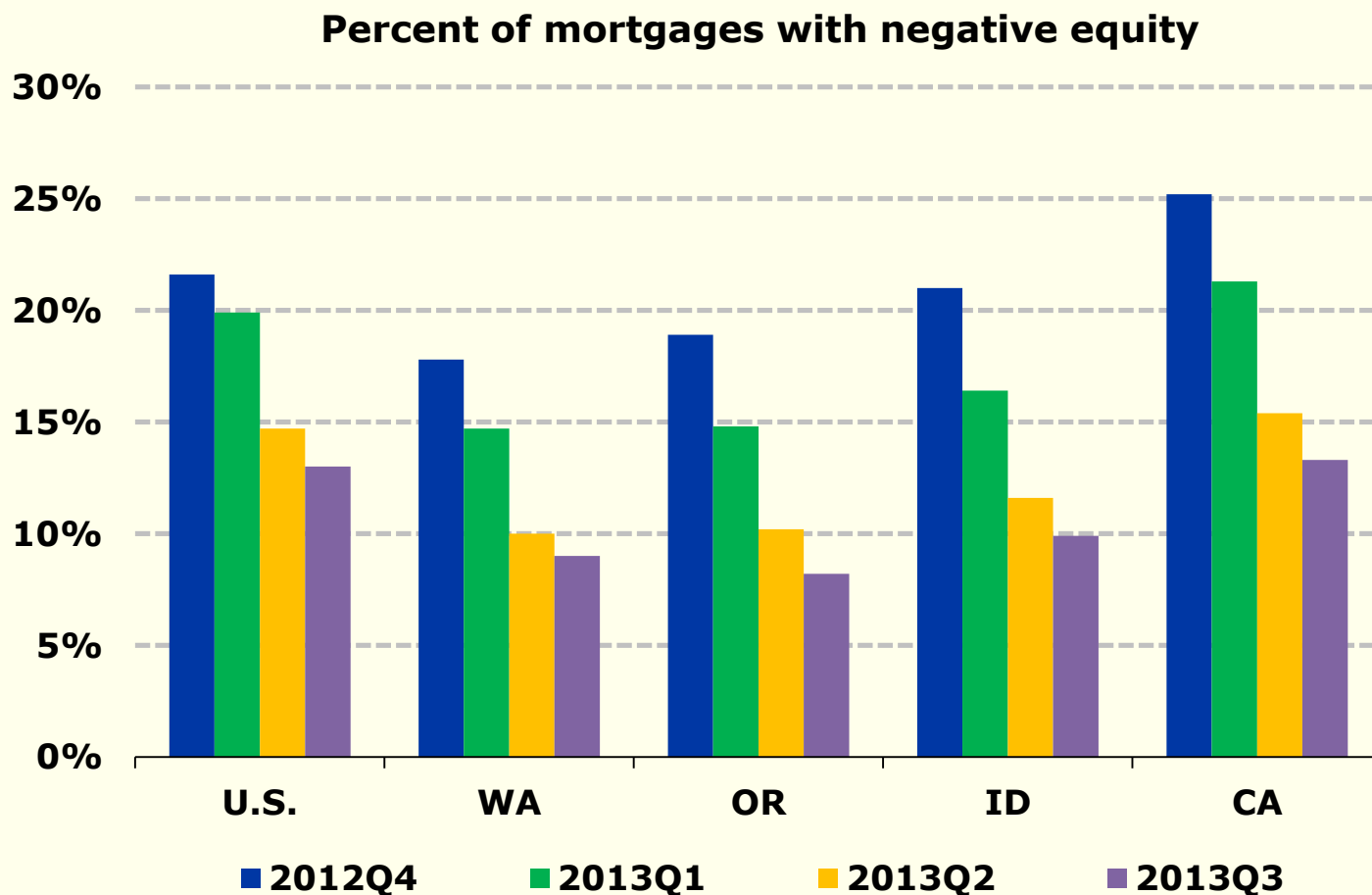


# Debt ceiling debate spiked short-term interest rates



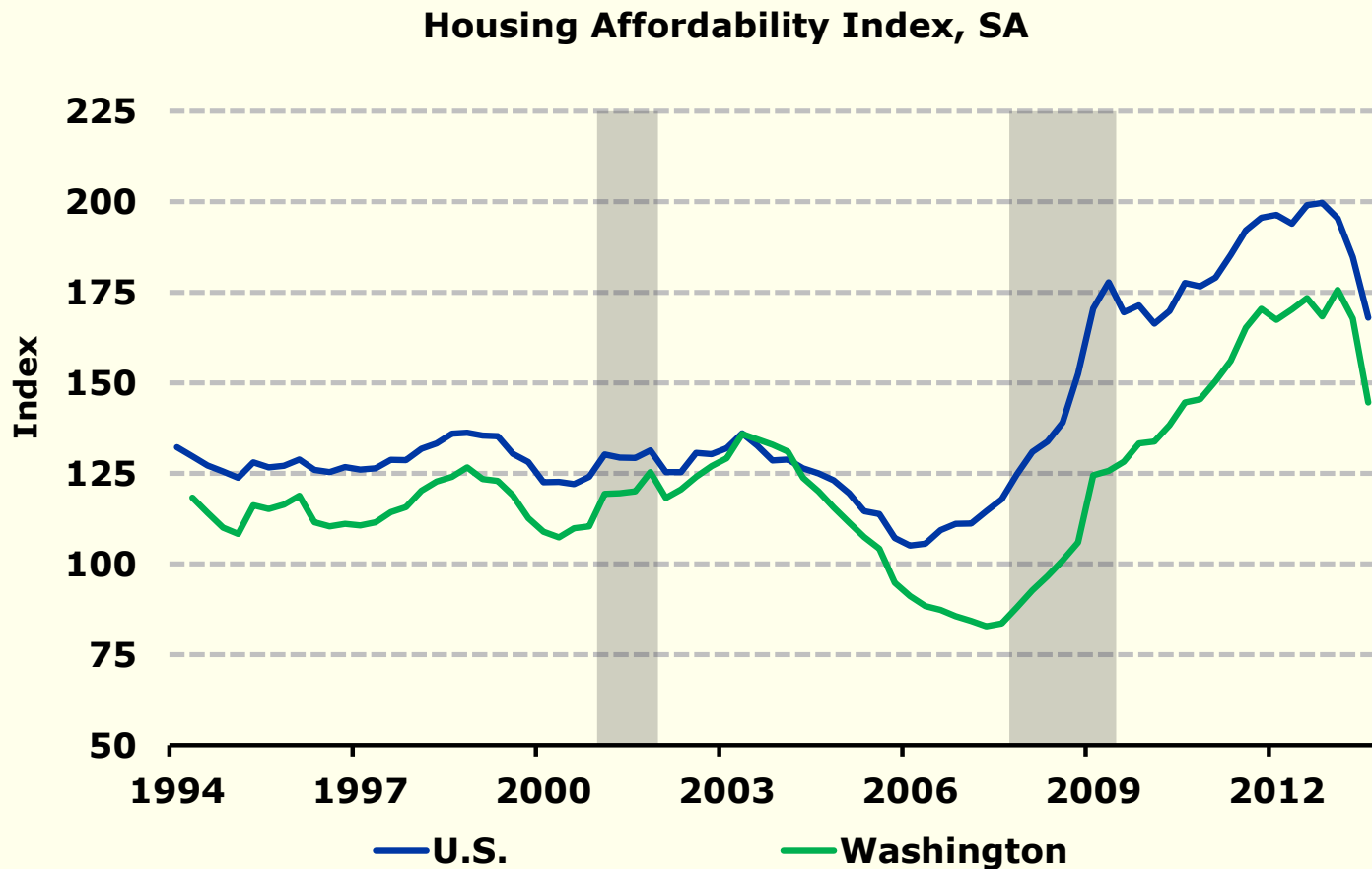


# Rising home prices have reduced the number of underwater mortgages



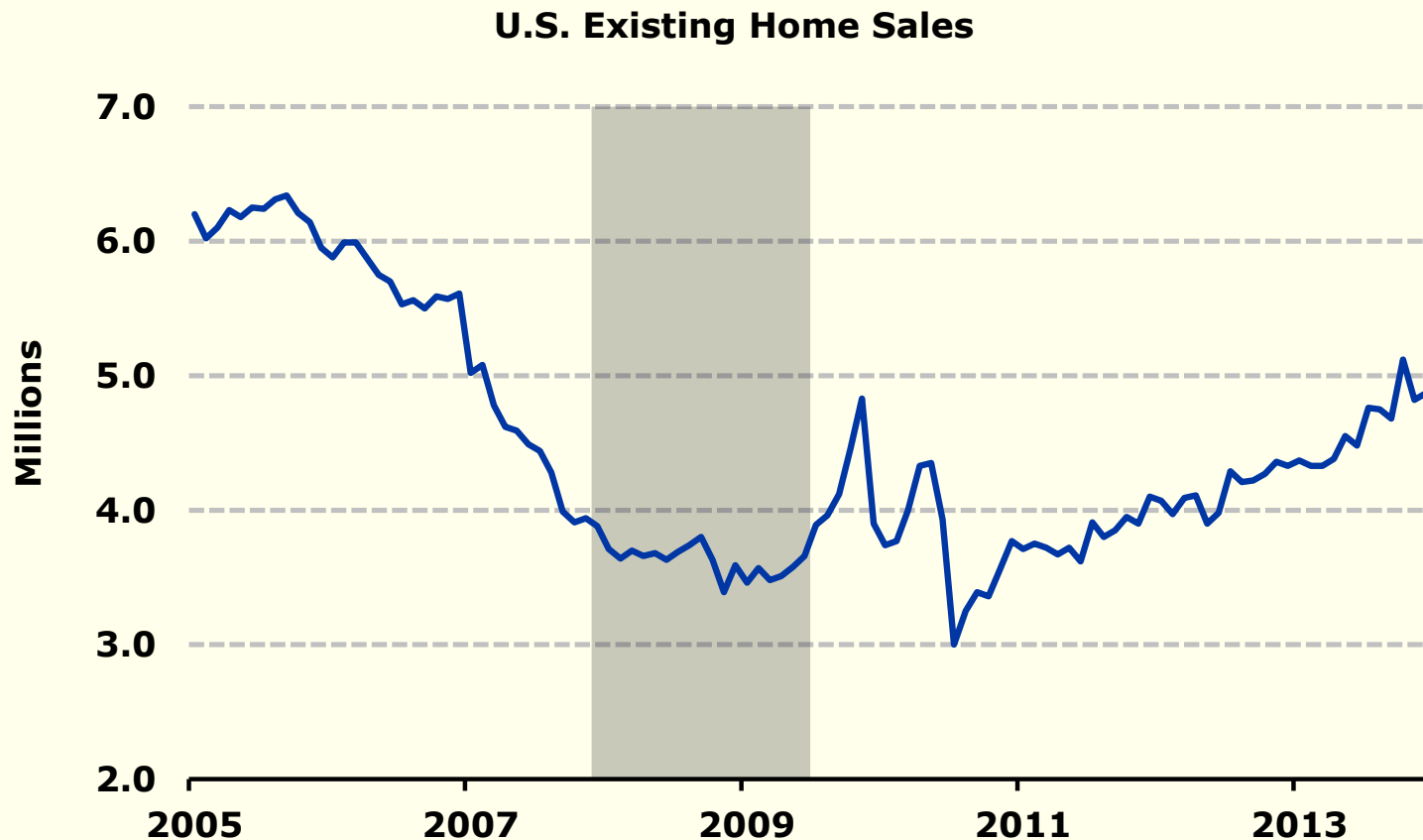


# Rising mortgage rates and home prices have reduced affordability





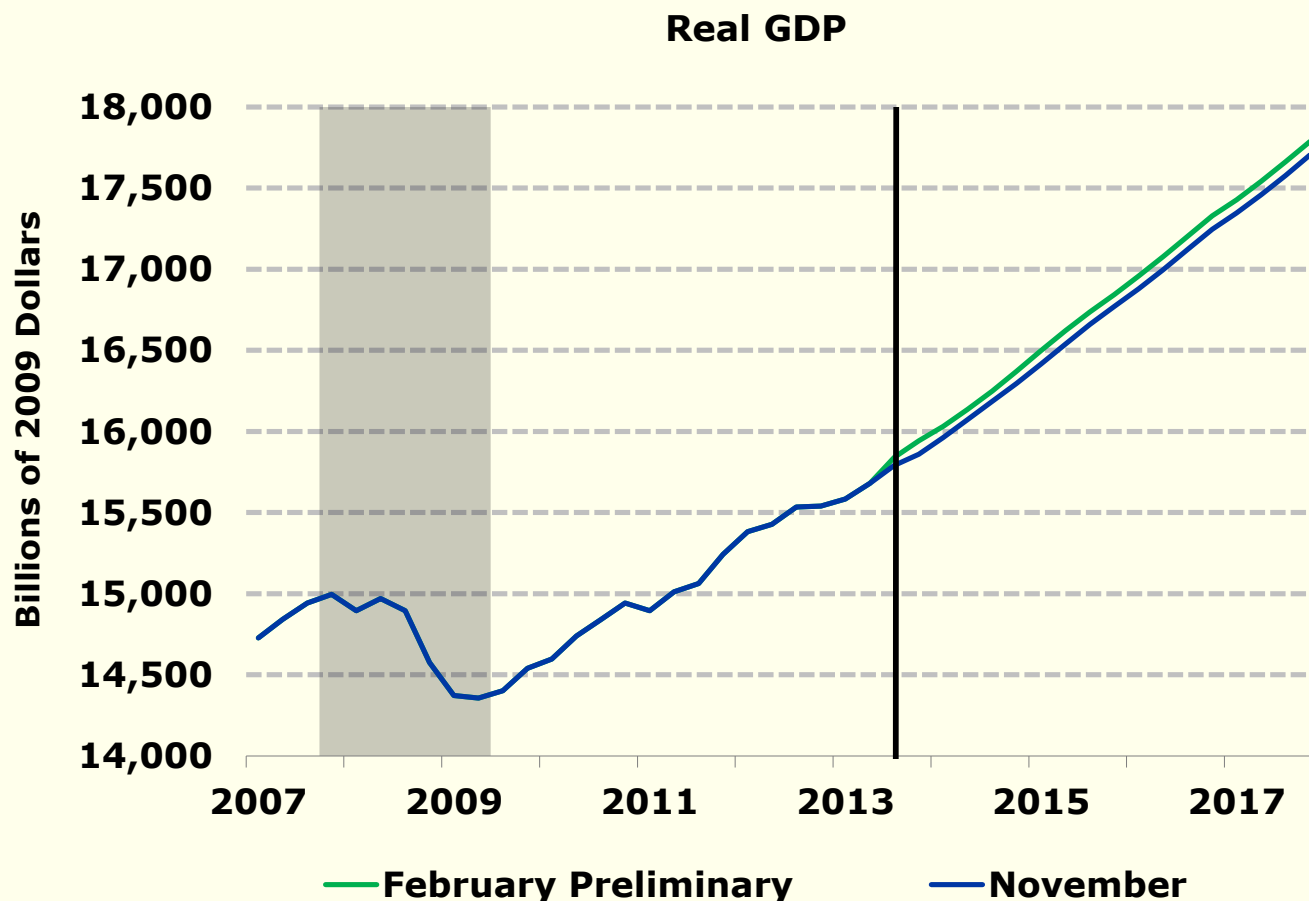
# Home sales remain on an upward trend





# The Blue Chip forecast for GDP is up slightly from November

Real GDP growth is slightly higher through 2015



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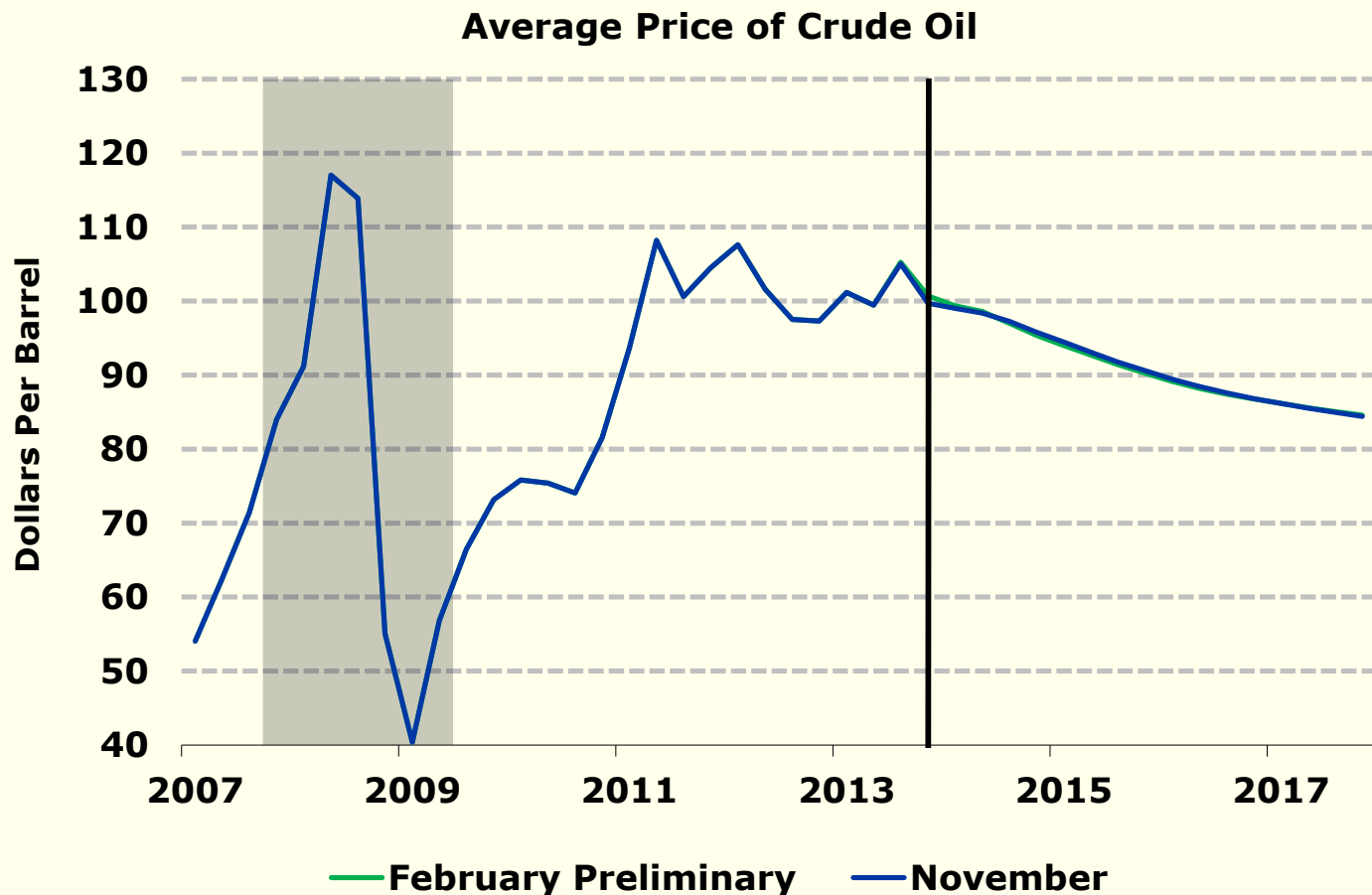
Source: Global Insight, ERFC February 2014 Preliminary forecast; historical data through 2013Q3

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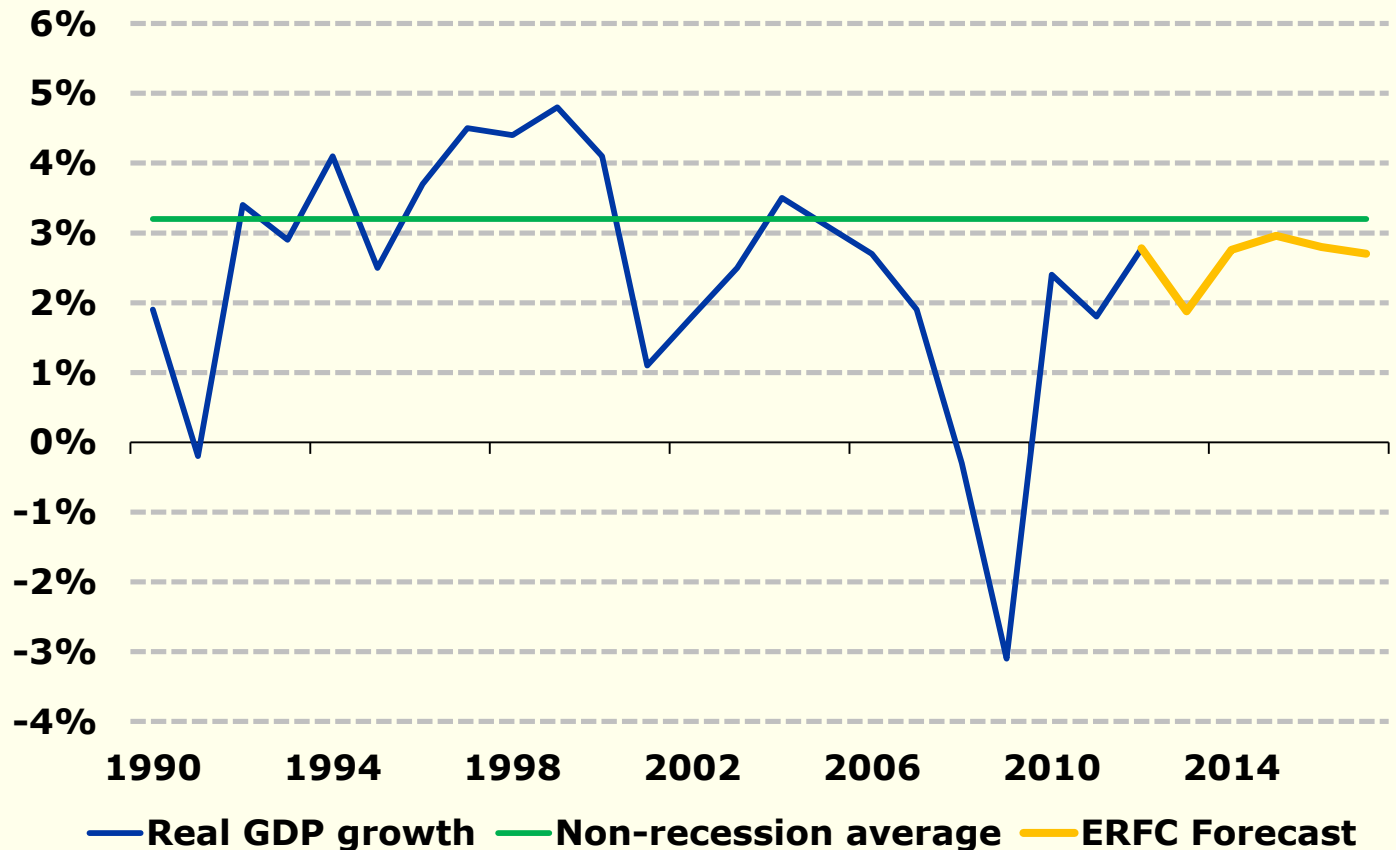
# Oil prices are essentially unchanged





# GDP growth forecasted to be near non-recessionary average in 2015

Non-recessionary average growth of 3.2% excludes 1990, 1991, 2001, 2007-2009





# Washington employment will recover faster than the U.S.

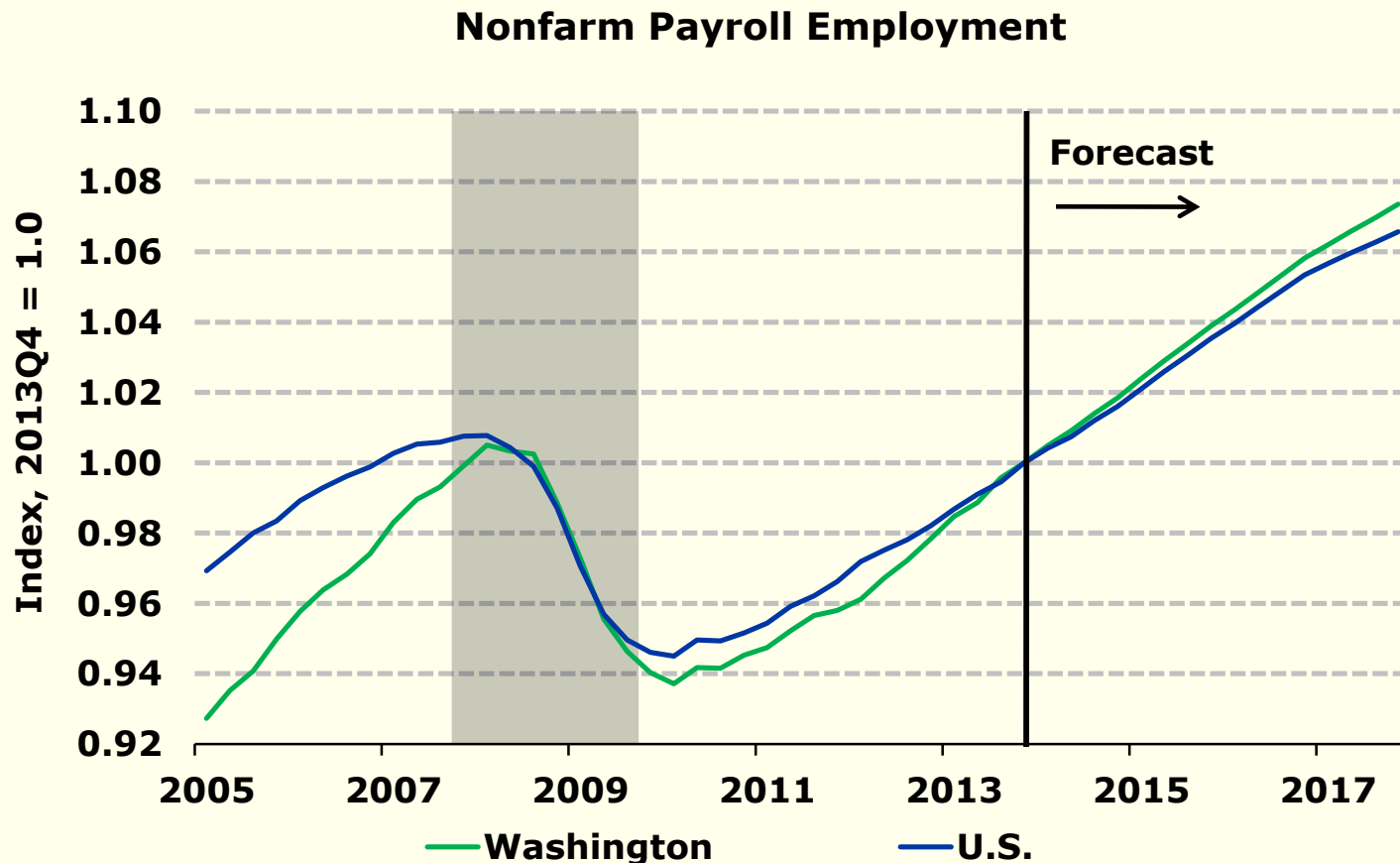
Date of regaining peak:

**WA:**

2014Q2

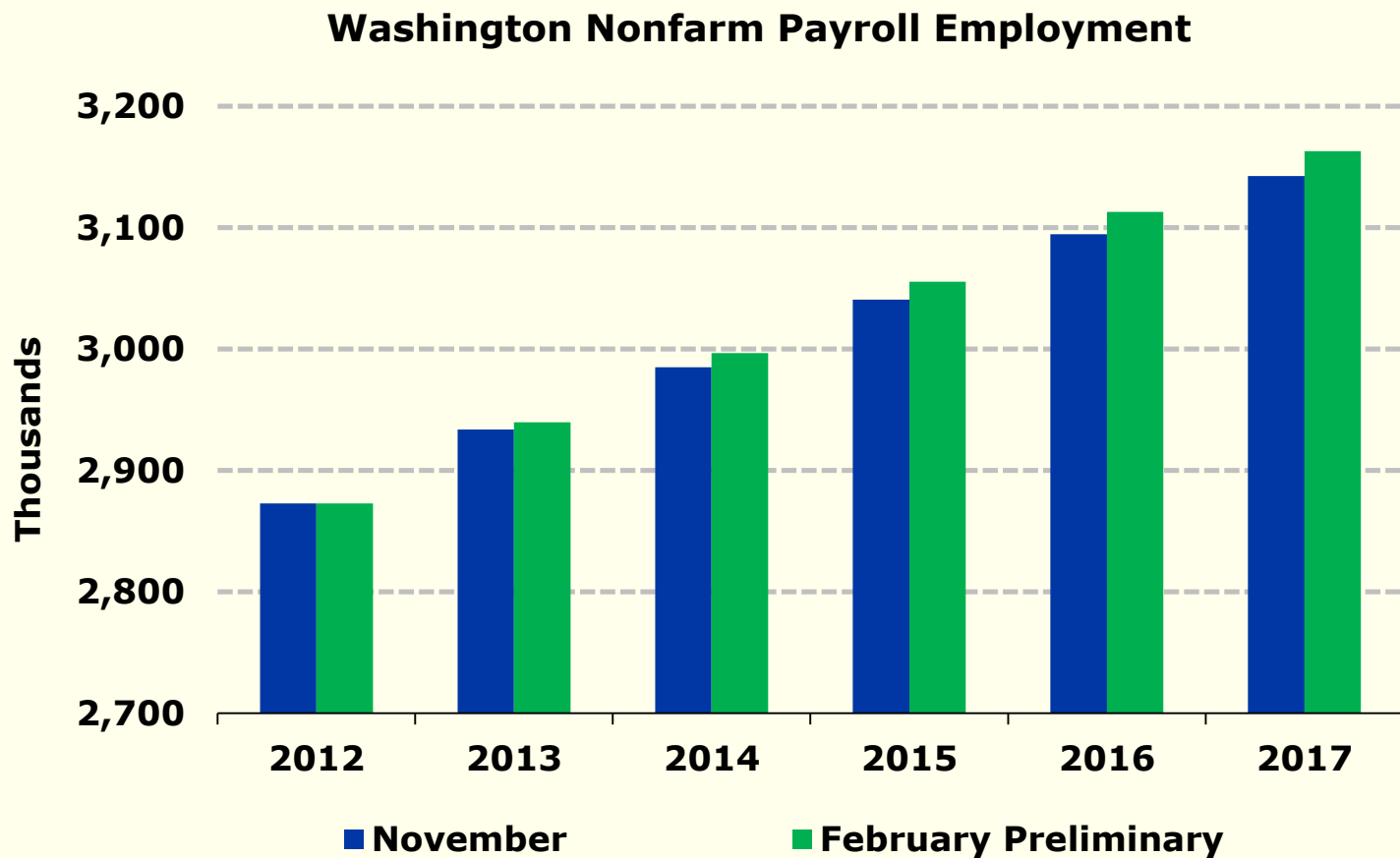
**U.S.:**

2014Q3





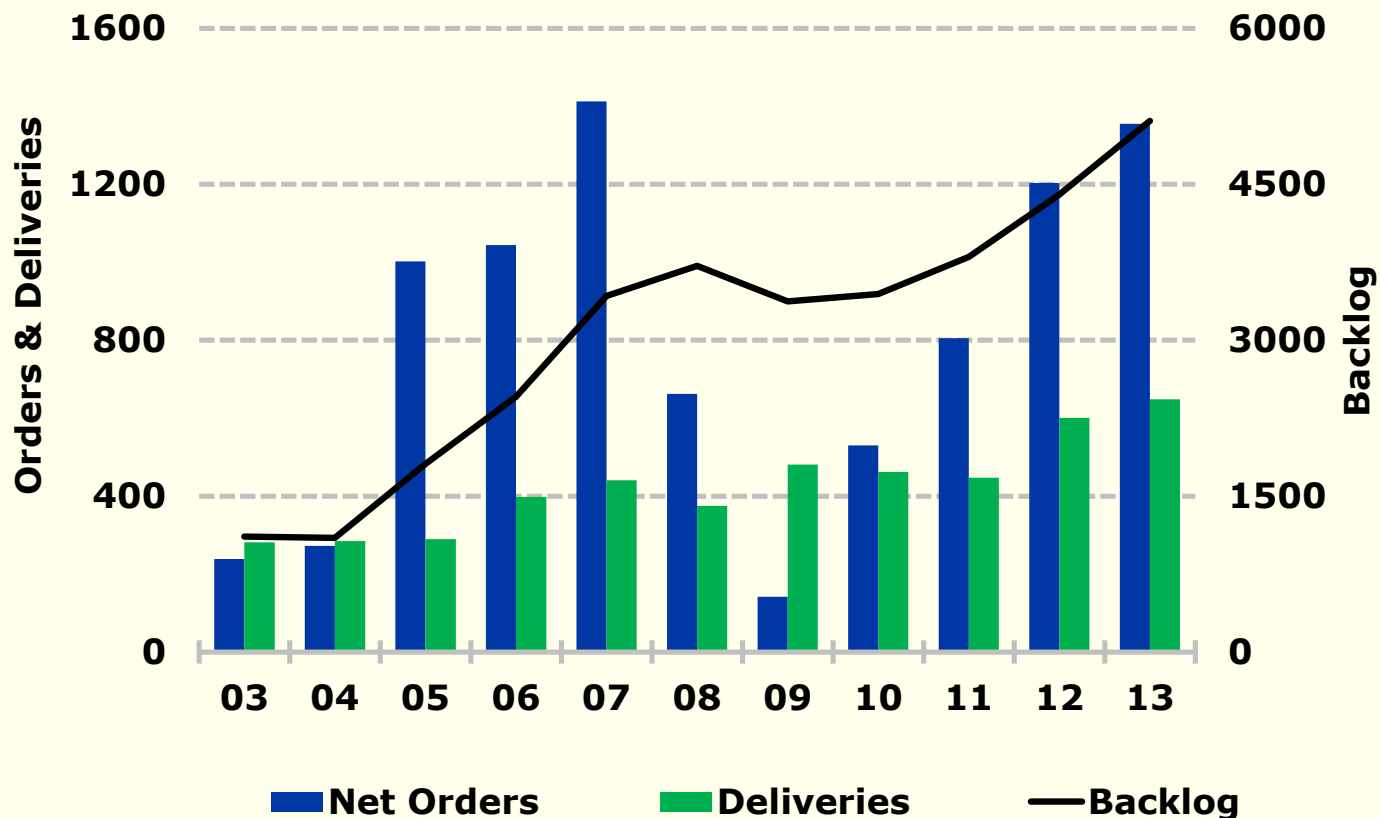
# Washington payroll employment forecast is higher





# Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

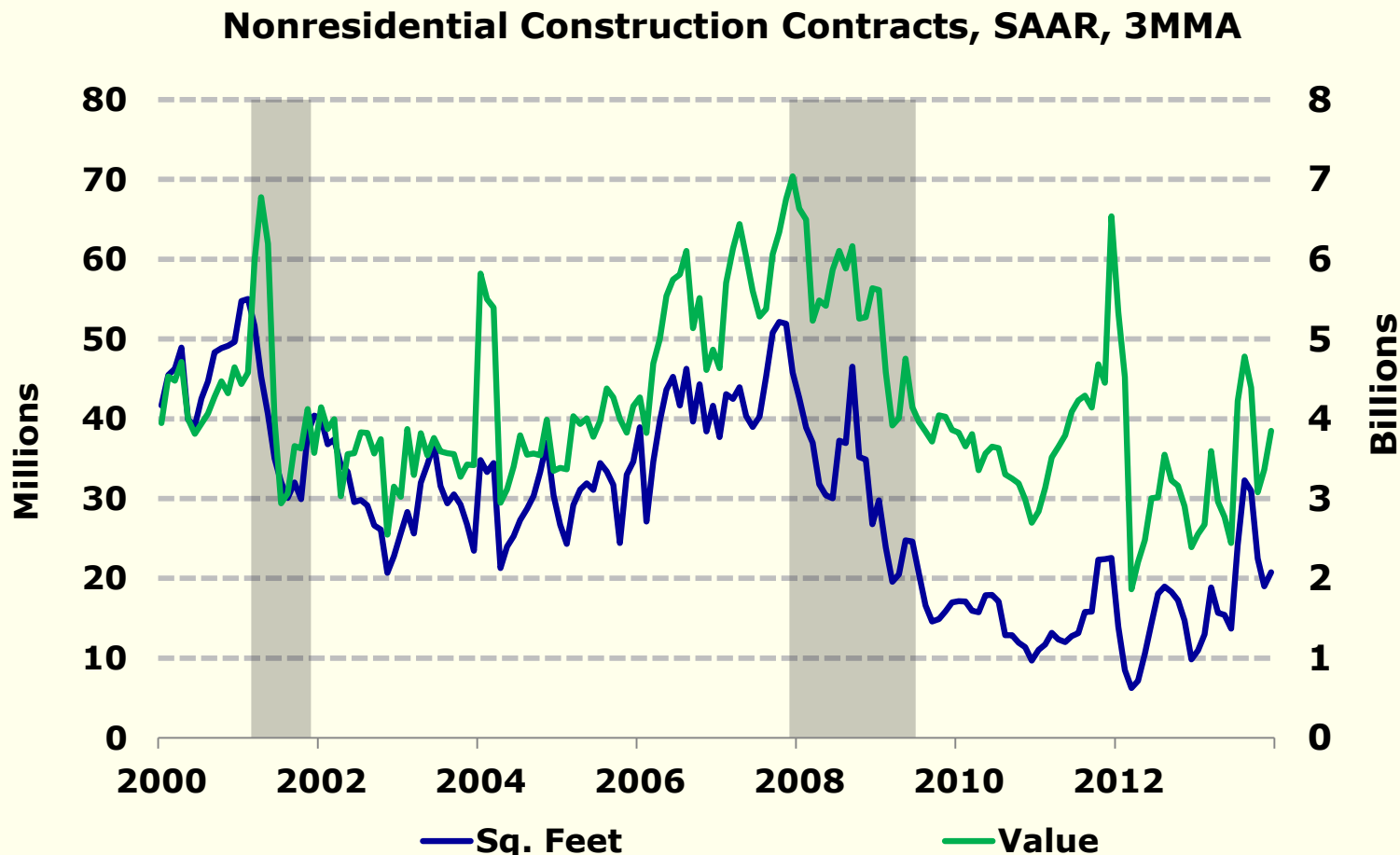


Source: Boeing, data through December 2013



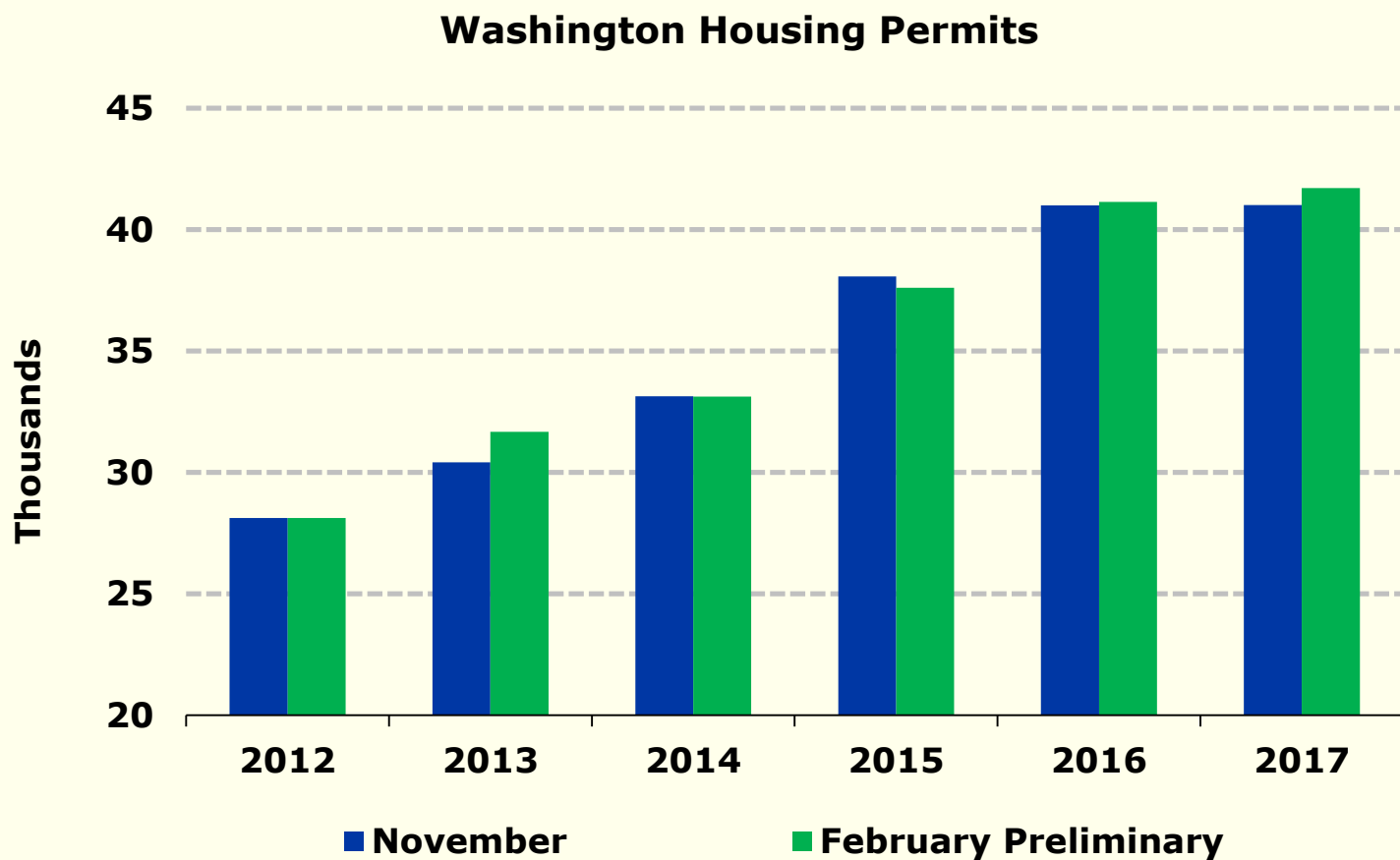
# Contract data indicates an increase in non-residential activity

Non-Residential square footage is up 111%, and value is up 61% year over year (3mma).



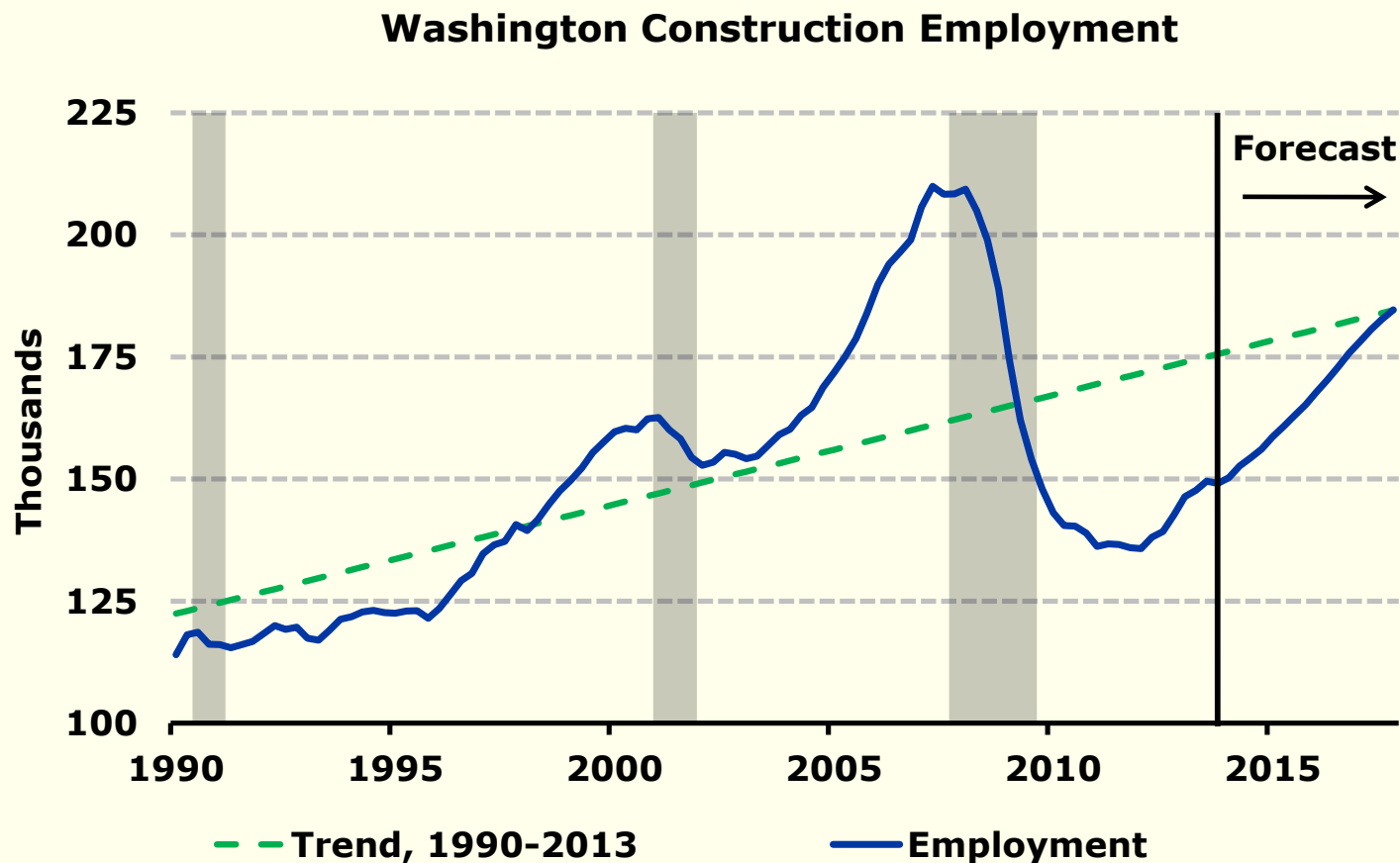


# Washington housing permits forecast is slightly higher in 2016 and 2017





# Washington construction employment is recovering





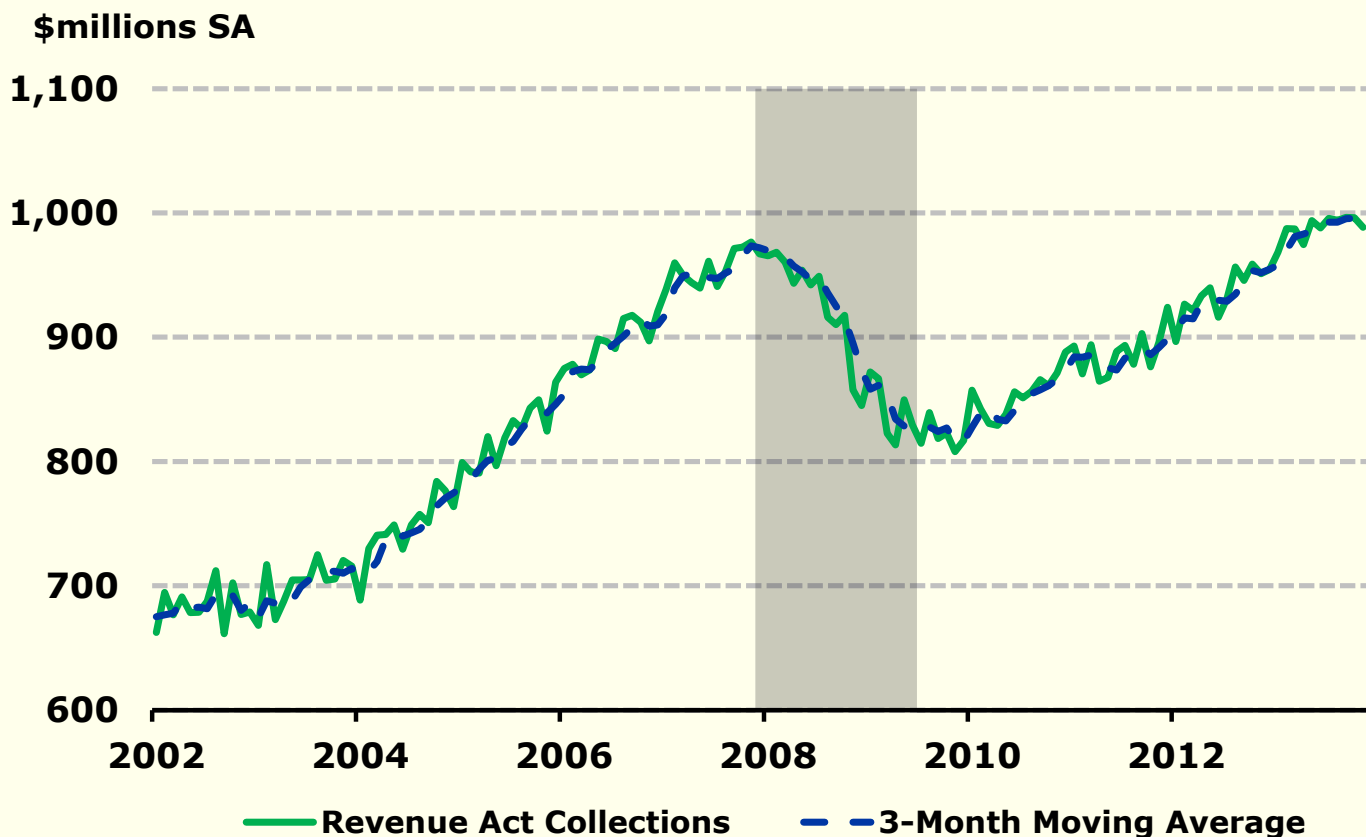


# Revenue Act collections still above their pre-recession peak

Adjusted for large one-time payments, January 10<sup>th</sup> collections were up 3.3% year-over-year

Year-over-year growth has slowed due to the expiration of the B&O services surtax on July 1<sup>st</sup>

The surtax brought in \$20-\$26 million per month



\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated November 2013 activity

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# Retail sales tax receipts are close to but not yet above the pre-recession peak

Sales tax growth has been high due to increased construction activity

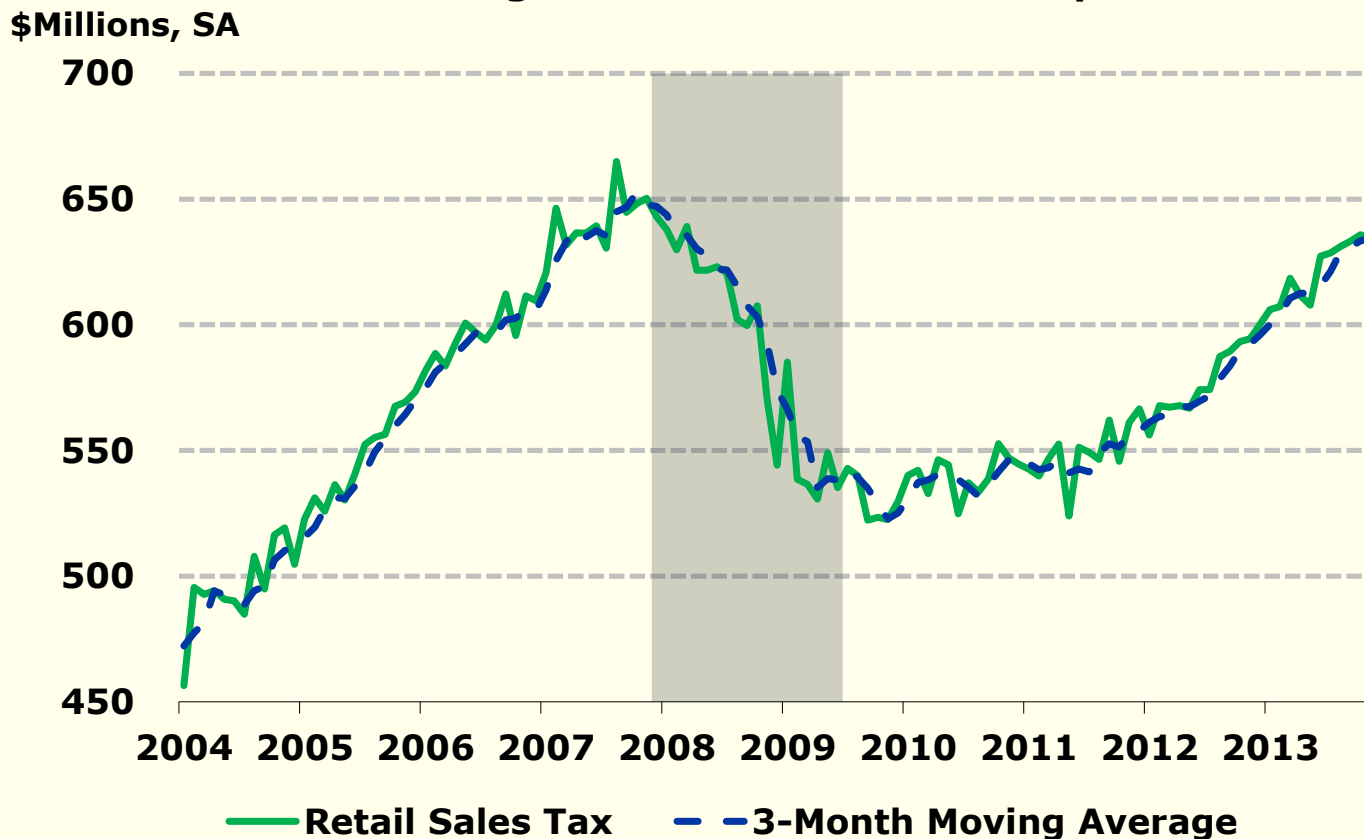
Collections were up 8.1% year-over-year for third quarter activity (August 11, – November 10, 2013 collections)

Preliminary collections for the first two months of Q4 were up 7.1% year-over-year

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## Washington Retail Sales Tax Receipts

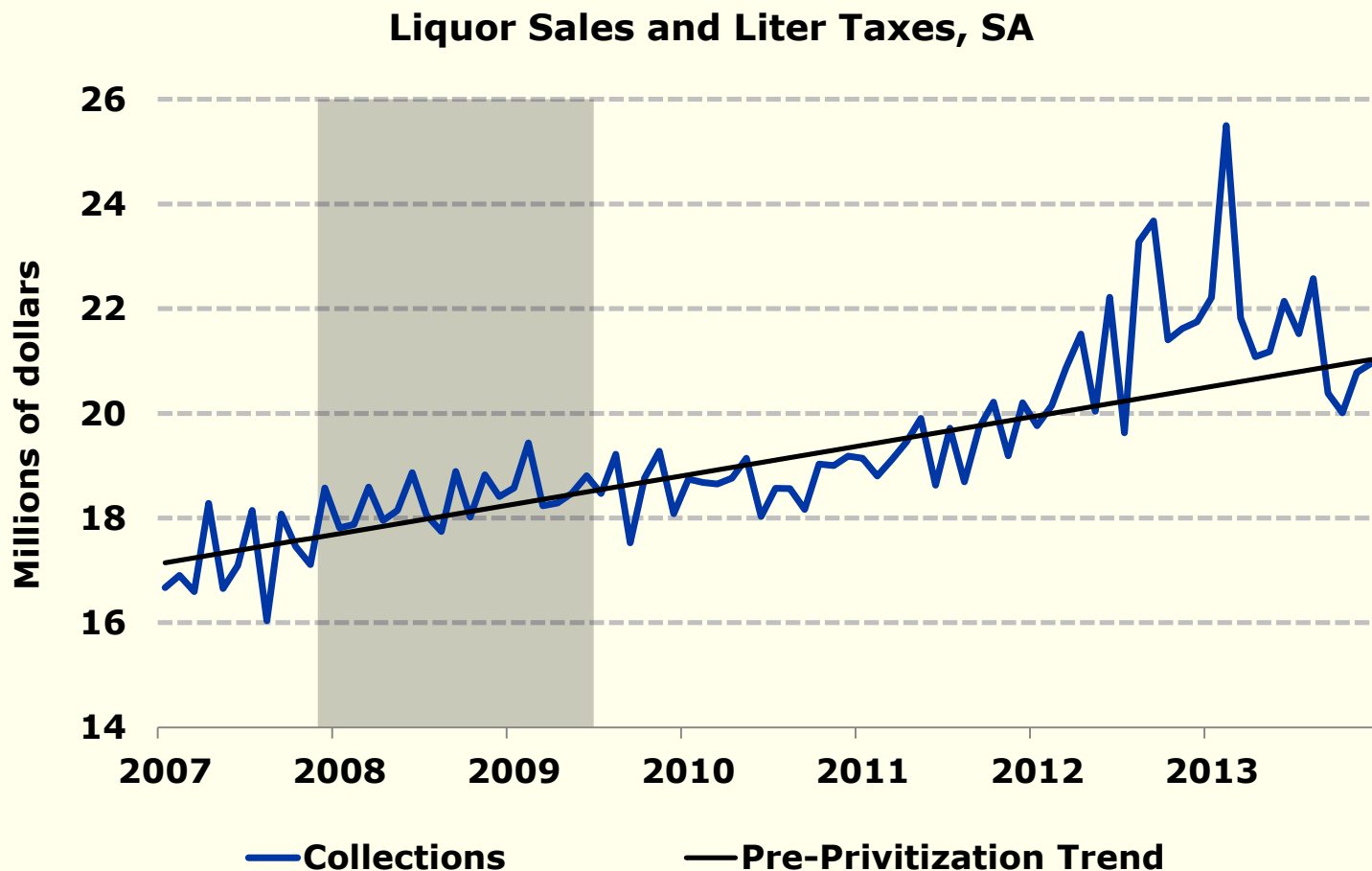


Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change  
Source: ERFC; Monthly data through November 2013 preliminary activity

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# Revenue from liquor sales has been volatile since privatization



Source: DOR, ERFC; data through December 2013



# Revenue collections to date

## Cumulative Variance Since November Forecast (November 11, 2013 – January 10, 2014) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$2,980,783	\$2,975,156	(\$5,627)	-0.2%
All other agencies	\$14,158	\$15,005	\$847	6.0%
Total GF-S	<b>\$2,994,942</b>	<b>\$2,990,160</b>	<b>(\$4,782)</b>	<b>-0.2%</b>
Excl. Special Factors*	<b>\$2,994,942</b>	<b>\$2,995,847</b>	<b>\$906</b>	<b>0.0%</b>

\*\$5.7 million refund not included in forecast



# Conclusion

- The economic forecast is quite similar to November's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic recovery include slowing Asian economies, uncertainty around federal fiscal issues and a slowdown in housing activity
- The next monthly collection report will be available on February 11<sup>th</sup> and the revenue forecast will be presented on February 19<sup>th</sup>



# Questions



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